

**Testimony of Ronald Newlan, Chairman HUBZone Contractors National Council**

**US Senate Committee on Small Business and Entrepreneurship**

**Hearing on**

**Increasing Government Accountability and Ensuring Fairness in Small Business Contracting**

**Wednesday July 18, 2007**

Chairman Kerry, Ranking Member Snowe, distinguished members of the Committee, thank you for inviting me here today. For those I have not met, I am Ron Newlan, the Chairman of the HUBZone Contractors National Council (HCNC). Our Council is the only national trade association that focuses exclusively on expanding the implementation of the Federal HUBZone contracting program.

I am honored to be here today to present to you our Council's views on the current status of the HUBZone Program.

A HUBZone is an area of our nation that has high unemployment or low household income or both. Today, 37 million Americans live in poverty. There is a strong correlation between the locations of America's HUBZones and the locations where these 37 million impoverished Americans live.

This Program was designed to create good jobs where America needs jobs the most. The Program creates these jobs by offering competitively awarded Federal contract opportunities to small businesses that locate in a HUBZone and hire employees who live in these HUBZones. Awarding Federal procurements to HUBZone firms is good public policy for several reasons. Firstly, awards under the Program are almost always based on competition so the Government receives the advantages of competitive pricing. Secondly, each HUBZone firm must have its largest office in a HUBZone—this stimulates the economic development in these zones of poverty. Thirdly, at least 35% of each HUBZone firm's employees must live in a HUBZone. In many instances, these employees, before being hired by a HUBZone firm, were drawing unemployment and/or welfare...so this is a double win—we move the unemployed or the welfare recipient back to the rolls of productive tax-paying employees.

The HUBZone Program was very well designed and I thank all of the members of this Committee who were here ten years ago—particularly former Chairman, Senator Bond, for his sponsorship and leadership in the process of creating the Program.

Today, there are nearly 13,000 HUBZone firms—their collective annual revenues exceed \$ 25 billion. If they were collectively ranked, they would be ranked #90 on the Fortune 500 list—larger than General Dynamics or Coca-Cola! Our resources, as a community, are vast. In Massachusetts, there are +110 HUBZone firms and their annual revenues exceed \$370 million.

In Maine we have 118 HUBZone firms whose collective annual revenues are approximately \$410 million. In Missouri, we now have 206 HUBZone certified firms!

Within the federal contracting small business sector, we are a large and robust small business community--there are more HUBZone certified firms than there are small disadvantaged businesses, 8(a) firms, or service disabled veteran-owned firms.

Unfortunately, this well designed Program has been very poorly implemented by the Federal Agencies that buy America's goods and services.

The HUBZone statute sets a goal for HUBZone contracting at 3% of total Federal contracting dollars. Despite the large size of our HUBZone contractor community, the Federal Government has never come close to meeting this 3% level. In FY 2005, the Government achieved 1.94%--this was by far the best year ever.

If I had to attribute the Program's lack of success to one thing, I would attribute it to the procurement community's reluctance to change their methods of doing business. For every one HUBZone set-aside competition conducted in FY 2005, there were 78 small business set-aside competitions conducted. Yet, the statutes and regulations are clear--the HUBZone Program is a higher priority program than the small business set-aside program.

The HUBZone statute and current regulations require a contract to be set-aside for HUBZone competition when a contracting officer has a reasonable expectation of receiving two or more offers from HUBZone firms and if the award can be made at a reasonable price. This is referred to as the HUBZone Rule of 2. It is very disappointing to see how often the procurement community ignores this Rule of 2 and conducts tens of thousands of procurements each year outside of the HUBZone set-aside program that should be awarded using HUBZone set-aside procedures. If current regulations were followed by the Federal contracting community, more than a hundred thousand jobs could be created annually for America's poorest residents!

Now to make matters even worse, the House of Representatives has passed a bill, HR 1873, and sent it to the Senate. One aspect of this bill is to increase the contracting goals for small disadvantaged businesses and women-owned businesses to 8% annually. The House completely ignored increasing the HUBZone goal to 8%. If this was to become law, this would increase the emphasis on SDB and women-owned contracting at the expense of the HUBZone Program.

It is time for the Federal procurement community to follow the law. For the past 10 years far too many procurement officials have ignored the HUBZone statute. For the 37 million Americans who live below the poverty level, the time for action has arrived.

I ask this Committee to:

1. Convey to all Senior Officials and Federal procurement officials that the HUBZone Rule of 2 means what it says--when there are 2 or more qualified HUBZone firms...make the procurement a HUBZone set-aside!
2. Re-emphasize that the HUBZone Program has priority over the small business set-aside program--there should never again be 78 small business set-asides for every 1 HUBZone set-aside competition.

3. Ensure the SBA Headquarters HUBZone Program regains its budget line item status and appropriate no less than \$15 million annually so this hardworking SBA staff can create the tools required to ensure that the Federal Departments give the Program the emphasis that it deserves—for every dollar spent on this SBA budget line item the return to the taxpayers is many fold in reduced welfare payments, reduced unemployment payments, and increased income taxes paid.
4. Increase the oversight of any Department that fails to meet the HUBZone minimum level set by the Congress.
5. Increase all small business program goals to 8%--or do not increase any of them--the HUBZone Program goal should not be ignored.

In closing, I would like to salute those Departments and Agencies who have proven that achieving HUBZone contracting goals is possible when senior leaders commit to the task and their procurement communities focus on goal accomplishment. The Departments of Agriculture and Interior each achieved 9 % in FY 2005. The Department of the Army achieved their 3% goal. HUD achieved 6% and the GSA achieved 4%.

Thank you for the opportunity to bring these urgent matters to your attention.